

## **LEGAL ACTION RE: THE MARLBORO SIGN IN SHEA STADIUM**

### **SITUATION ANALYSIS/EXECUTIVE SUMMARY:**

- Acting at the request of the Mayor, the Parks Department of the City of New York has ordered the Mets to remove the Marlboro sign from Shea Stadium.
- PM's contract with the Mets for the right to use the space runs until 1996.
- The City has refused to modify its demands in negotiations with the Mets and PM.
- As a result, the Mets have filed a petition in State Supreme Court in Queens, asking the Court to determine whether they must comply with the demand of the City -- which is their landlord -- or honor their contractual obligation to PM.

### **Q&A**

How does PM respond to New York City's attempt to have the Marlboro sign removed from Shea Stadium?

- We oppose attempts to limit our right to free speech, and we certainly oppose the City's action.
- PM has met with both the Mets and the Giuliani Administration several times over the past few months regarding the issue. The City has chosen to disregard all options other than the immediate removal of the sign.
- As PM has a legal and binding contract with the Mets, removing the sign is not a realistic option.
- As we await the Court's decision, PM stands ready to continue discussions with the Mets and the City at any time.

## **AMERICAN MEDICAL ASSOCIATION (AMA) ALLIANCE WITH HEALTH FOOD STORE CHAIN IN ANTI-SMOKING CAMPAIGN**

### **SITUATION ANALYSIS/EXECUTIVE SUMMARY**

- On March 31, 1994 it was announced that the AMA had accepted \$1 million from the General Nutrition Centers health food store chain. The money is to be used to fund an AMA anti-smoking campaign.
- In return, General Nutrition Centers has the exclusive right to sell an AMA anti-smoking kit costing \$70.
- Critics of the arrangement have questioned the kit's effectiveness and high price. The AMA admits the kits have not undergone rigorous scientific testing.
- Dr. Ronald M. Davis, former director of the Surgeon General's Office on Smoking and Health and a member of the AMA's council on scientific affairs, expressed concern about the alliance in light of the FDA's recent investigation into "the inappropriate promotion of dietary supplements."

### **Q&A**

What is PM's position on the AMA's recent alliance with a health food store chain to promote a \$70 anti-smoking kit?

- PM believes in free choice and freedom of expression. The AMA and General Nutrition Centers are free to enter into any agreement and promote any product they want.
- It is up to adults to evaluate all of the available information on smoking -- including that which is put out by the AMA -- and make their own decision on whether to continue smoking.

**AMERICAN MEDICAL ASSOCIATION (AMA) ALLIANCE WITH HEALTH FOOD  
STORE CHAIN IN ANTI-SMOKING CAMPAIGN (CONT'D)**

Do you believe it is appropriate for the AMA to accept money from General Nutrition Centers in view of the FDA's recent investigation into misleading health food and vitamin supplement advertising?

- Only the AMA can decide whether it is appropriate or inappropriate for it to accept certain funds.

## INFACT

### SITUATION ANALYSIS/EXECUTIVE SUMMARY

INFACT, a new player on tobacco issues, launched campaign in May 1993. Formerly known as Infant Formula Action Coalition. (INFACT went against Nestle for selling its infant formula in "Third World" countries without complete information. Then INFACT focused on GE's nuclear power business. In both instances, INFACT claimed victory when each company altered their operations—for business reasons, not as a result of INFACT's activities.) INFACT works with other anti-tobacco groups—particularly Dr. Greg Connolly's Stop Teenage Addiction to Tobacco (STAT) to taint the image of tobacco manufacturers. INFACT launched a postcard campaign in October 1993.

**Confidential:** To date, more than 10,000 postcards have been received by PM. In addition, INFACT recently started a telephone campaign. As of 4/14/94, PM has received no phone calls.

INFACT plans to launch a "major international boycott of PM," and a national campaign to "get Joe Camel out of retail stores." This activity will be launched on April 19, in 25 cities throughout the US. We assume Richmond will be one of those cities.

### Q&A

How do you respond to INFACT's threat to boycott KGF products if PM does not stop undermining public health efforts, and stop marketing and promoting tobacco to children worldwide?

- PM markets its brands to adult smokers — not to children.
- Tobacco Institute's "It's the Law" campaign educates retailers regarding their states' laws governing sales to minors and offers information on keeping cigarettes out of the hands of children.
- PM well understands the importance of all our freedoms—including a free press and speech—that speaks for and to the diversity of the country.
- KGF operates independent of tobacco company. A boycott of our food products is inappropriate.

## RECENT MEDIA REPORTS CHALLENGING THE NUMBER OF PEOPLE EMPLOYED IN THE TOBACCO INDUSTRY

### SITUATION ANALYSIS/EXECUTIVE SUMMARY

- On April 14, 1994, the *Wall Street Journal* printed a front-page story with the headline "Tobacco's Troubles Jeopardize the Jobs of Surprisingly Few."
- *Journal* staff reporter Helen Cooper alleges that the tobacco industry is not as important economically to tobacco states like North Carolina or Virginia as it once was.
- The article terms the tobacco industry in North Carolina "a wisp of its former self," and quotes a Charlotte-based economist as saying "You'd be surprised at how small the tobacco industry really is."
- The article cites U.S. Department of Commerce statistics reporting that tobacco accounts for 4.3 percent of North Carolina's gross state product, down from 11.6 percent in 1977. In Virginia, tobacco product manufacturing contributed 2.1 percent of gross state product, down from 5.9 percent in 1997. Similar trends in other tobacco states are noted.
- The article also claims that there are far fewer people working in tobacco manufacturing than in the past. The writer acknowledges that greater efficiencies in tobacco manufacturing account for much of the job loss.

## RECENT MEDIA REPORTS CHALLENGING THE NUMBER OF PEOPLE EMPLOYED IN THE TOBACCO INDUSTRY (CONT'D)

### Q&A

How does PM respond to the *Wall Street Journal's* claim that the tobacco industry is not as potent an economic force as it once was in the South?

- Estimates based on data compiled by the accounting firm of Price Waterhouse indicate that approximately 2.3 million U.S. jobs are created by the tobacco industry. Clearly, the tobacco industry makes an important contribution to the entire U.S. economy.
- The industry is particularly important to the economies of those states where tobacco is grown and cigarettes are manufactured. To state otherwise belies the obvious.
- The *Wall Street Journal* article only focused on those jobs related directly to tobacco growing and manufacturing. According to the same article, 500,000 people in North Carolina work in the retail industry. Many of those retail jobs are directly dependent upon the tobacco industry.
- The fact that the industry may employ fewer people now than it did 30 years ago does not mean it is any less vital as an economic force. In many ways, remaining jobs have become even more important to the economic vitality of the region.
- Many of the tobacco jobs that could be lost due to an increase in the FET or stricter tobacco regulation are manufacturing jobs, the very kind of jobs we are trying to preserve in the U.S. By contrast, many of the newer jobs out-pacing tobacco employment are in the service sector.

## SHAREHOLDER PROPOSAL: MILK/CHEESE PRICING

### SITUATION ANALYSIS/EXECUTIVE SUMMARY

- Proponents - For the past three years, activist church groups have submitted shareholder resolutions relating to Kraft's trading on the National Cheese Exchange. The proponents the first two years were the Missionary Oblates of Mary Immaculate. ("Oblates" are orders of lay persons who have dedicated their lives to the church.) This year, the Sinsinawa Dominican Order, which was a co-filer in 1993, is the primary filer, the Missionary Oblates is a co-filer. The Sinsinawa Dominicans are located in Sinsinawa, Wisconsin, while the Oblates do not seem to have any particular nexus with a dairy geography.
- Reason for Involvement - In the past 5 to 8 years, decreases in the federal support price for milk have resulted in a degree of volatility for milk prices that is typical of agricultural markets but unfamiliar to dairy farmers. This has caused increased focus on the market which most visibly correlates with the prices farmers receive for milk -- the National Cheese Exchange. Farmers have blamed the Exchange for the volatility, and -- since Kraft has been the principal seller of cheese on the Exchange for the past several years -- have blamed Kraft when prices decline. The simplistic explanation that when Kraft sells, dairy prices decline, has appealed to activists who are not knowledgeable about the complexities of supply and demand conditions in the dairy industry.

## SHAREHOLDER PROPOSAL: MILK/CHEESE PRICING (CONT'D)

- History of Proposals - In 1992, the Missionary Oblates withdrew its proposal on condition that PM and KGF representatives agree to meet with their representatives. The meeting was unproductive and generated adverse publicity for Kraft in Wisconsin. In 1993, after PM sought a no-action letter from the SEC, the Oblates again withdrew its proposal on condition of a meeting. The 1993 meeting was relatively cordial and caused no adverse consequences. However, the 1994 proposal repeated the errors and misconceptions contained in the earlier proposals. Since it seemed evident that everything we said had fallen on deaf ears, a decision was made to seek a no-action letter but not have a third meeting. Based upon a current policy controversy which has the SEC in court, the agency did not issue a no action letter resulting in the publication of the proposal.

### THE PROPOSAL(S)

Some details have varied over the years, but the basic premise and objective of the proposals have not changed.

- The premise has been the assumption that the price the farmer receives for milk is a consequence of Kraft's sales of cheese on the National Cheese Exchange.
- The objective has been to require Kraft to make business decisions that will cause the farm-gate price for milk to increase.

The 1994 proposal asks that the company engage in the following actions:

- Cease trading of the Exchange.
- Take "extraordinary" measures to influence government policies purportedly for the purposes of raising and stabilizing milk prices, insuring competition among dairy processors, and insuring the survival of "family-operated" farms.



## SHAREHOLDER PROPOSAL: MILK/CHEESE PRICING (CONT'D)

### OUR RESPONSES TO THE PROPOSALS

The basic premise is wrong. The prices for milk and cheese are functions of a number of interrelated variables. In general terms, the factors are supply and demand, together with governmental regulation which may influence either or both of them. When the supply of milk exceeds the demand for dairy products, prices of all dairy commodities decline; the inverse is also true.

- For example, with extremely wet weather in the midwest last summer, milk production declined. Prices of both milk and cheese rose. Transactions on the Exchange were not the "cause" of the rise in milk prices; rather, the decline in the supply of raw milk caused an increase in prices for all dairy commodities.

The objective is impossible. Kraft cannot, does not and should not sell cheese on the Exchange with an intent to affect prices.

- "Cannot" -- Kraft makes about 6% of the natural cheese in the United States and uses less than 20% of the country's natural cheese and 11% of its milk. Kraft competes in an industry with many other large organizations, both manufacturers such as ConAgra and Borden and cooperatives such as MidAm, AMPI and Land O' Lakes. It is obvious that no company has the market power to set, dictate or direct commodity prices. Kraft buys and sells commodities at the prices determined by a highly competitive market.
- "Does not" -- Kraft engages in transactions on the Exchange in order to balance its dairy supply and demand. Kraft's legitimate and rational business needs currently make it more likely that Kraft will sell rather than buy cheese on the Exchange. Other traders, with different business needs and strategies, may adopt other practices. In any event, it is the supply-demand balance of the total industry, not the supply-demand balance of any single company, that determines prices.

**SHAREHOLDER PROPOSAL: MILK/CHEESE PRICING (CONT'D)**

- "Should not" -- Since Kraft lacks market power, it could not set price without engaging in collusion in violation of the antitrust laws. Federal and state law enforcement authorities have repeatedly investigated the Exchange and have repeatedly concluded that no such violations occurred.

The proposed actions are ill advised and counterproductive.

- The proposal asks that Kraft become the only major cheese company that does not -- and the only cheese company that may not -- trade on the Exchange. This would result in a significant competitive disadvantage.
- Markets set prices on the basis of available information. Prohibiting Kraft from participating in Exchange transactions would deprive the cheese market of valuable information. There is no foundation for suggesting that the result of such a prohibition would be a market which more accurately reflects the value of cheese.
- The idea that governmental action to raise and stabilize prices somehow "insures competition" is absurd. Such actions may protect less efficient and productive competitors, but economic protectionism is not pro-competitive in any way.
- The decline in the number of dairy farms -- and all other types of farms -- has been proceeding for decades. Continuous increases in productivity have not been offset by equivalent increases in consumption. If prices were somehow raised as the proponents desire, productivity improvements would continue unabated, but consumption would decline.

## SHAREHOLDER PROPOSAL: MILK/CHEESE PRICING (CONT'D)

### Q&A

Why does Kraft insist on participating on the Exchange?

- Engages in transactions on the Exchange to balance its dairy supply and demand. Currently, we are selling more than buying to ensure our customers have a consistent, high-quality supply.
- This proposal asks that Kraft become the only major cheese company to be restricted from trading on the Exchange which would result in a significant competitive disadvantage.

Isn't the real reason Kraft participates on the Exchange is to dump cheese and thereby force cheese and milk prices downward?

- Cannot influence prices because we do not have the market power to set, dictate, or direct commodity prices.
- Competes with many other large organizations.
- Represents only 6% of the total US natural cheese production and uses less than 20% of all natural cheese and 11% of all milk produced. It is the supply-demand balance of the total industry and not any single company that determines Exchange prices.

Why won't Kraft exit the Exchange and influence government policy to raise and stabilize milk prices and ensure competition to protect the dairy industry long-term?

- Exiting the Exchange won't stabilize prices, nor will it improve the competitive environment for the dairy farmer.
- We do not have the market power to set, dictate, direct or affect commodity prices.
- Supply-demand balance of the total industry, and not any single company, determines prices.

**SHAREHOLDER PROPOSAL: MILK/CHEESE PRICING (CONT'D)**

Why do shareholder groups keep challenging your behavior in the cheese market?

- Two shareholder groups would like to see higher milk prices
  - due to government regulations, or
  - by Kraft manipulating milk prices higher.
- Kraft believes that milk prices should be a function of marketplace forces of supply and demand.
- Kraft's acts must be in compliance with the law.

## TOBACCO 1994

### MEDIA/CONGRESS/CLINTON ADMINISTRATION

#### JANUARY

- 6 Washington Post reports on Congress' fire-safe cigarette initiatives
- 7 Surgeon General Elders warns on dangers of ETS and children
- 11 United Airlines announces a trial smoking ban on international flights
- 12 Former President Carter calls for advertising limits
- 16 OSHA reported to be moving toward smoking ban
- 20 Researchers announced they had linked smoking to some forms of leukemia
- 26 Arby's bans smoking
- 28 GATT announces a panel to probe US tobacco import restrictions

#### FEBRUARY

- 1 San Francisco's stringent smoking law takes effect
- 4 The Mayor of New York City announces opposition to a tobacco ad at Shea stadium
- 5 The American Bar Association urges increased taxes for tobacco and alcohol
- 7 The White House backs a tough public smoking ban
- 8 Surgeon General Elders backs the ban on smoking in US public buildings  
The EPA announces support for near-total smoking ban
- 11 A study reported that smoking while pregnant lowers the IQ of children
- 20 Washington Post reports increased teen smoking
- 22 ETS in fetal hair report from AMA
- 23 McDonald's announces new smoke-free policy  
National Council of Chain Restaurants supports smoking ban  
Congressman Moakley introduces fire-safe cigarette bill
- 24 30th anniversary report of the Surgeon General
- 25 ABC News breaks story on nicotine "spiking"
- 27 United Airlines institutes trial bans on international flights
- 28 ABC Day-One nicotine story  
Action on Smoking & Health files another petition with FDA to regulate cigarettes

**MARCH**

- 3 Maryland proposes statewide workplace ban  
Congressmen Synar and Durbin solicit sponsors for their FDA bill
- 4 DOD leaks new smoking ban policy  
Senator Kennedy requests GAO study of nicotine issue
- 7 ABC Day One on FDA jurisdiction and "ingredients"
- 7-11 NBC News runs tobacco feature every night
- 8 Wall Street Journal reports Justice Department anti-trust division investigation of alleged suppression of fire-safe cigarette research
- 9 House Floor Amendment to Education Bill adding tobacco to definition of "drugs" passes  
Department of Defense announces smoking ban  
Industry tobacco rally in Washington
- 10 Fire-safe cigarette article in Washington Post  
Former HEW Secretary Califano calls for \$2 tax before Senate Finance  
Congressman Waxman asks Justice Department to investigate companies' ingredient reports
- 14 Taco Bell bans smoking
- 16 Stark Subcommittee narrowly defeats \$2 FET proposal
- 17 Waxman Hearing on smoking ban
- 22 Waxman cancels mark up of smoking ban bill
- 25 Waxman holds hearing on FDA jurisdiction over cigarettes
- 27 60 Minutes airs feature on "fire-safe" cigarettes

**APRIL**

- 19 Hearing on fire-safe cigarettes legislation before House Energy & Commerce Subcommittee
- TBA Kennedy hearings on FDA jurisdiction with GAO report
- TBA Waxman mark up of smoking ban bill

## **FIRE SAFE CIGARETTES**

### **JANUARY**

- 6 Washington Post article on legislation
- 11 Justice Department issues civil subpoenas

### **FEBRUARY**

- 23 Congressman Moakley introduces legislation

### **MARCH**

- 8 Wall Street Journal runs story on CID's
- 10 Industry interviewd by 60 Minutes
- 27 60 Minutes runs feature on issue
- 10 Waxman asks Department of Justice to investigate industry's ingredient reporting

### **APRIL**

- 19 Hearing on fire-safe cigarette legislation before House Energy & Commerce Subcommittee

## **FDA JURISDICTION**

### **FEBRUARY**

- 25 FDA Commissioner releases letter to COSH on possible FDA jurisdiction over tobacco
- 28 ABC News "Day One" feature "on spiking"  
COSH/ASH files new FDA petitions

### **MARCH**

- 3 Congressmen Synar/Durbin solicit co-sponsors
- 4 Senator Kennedy requests GAO study
- 7 ABC News "Day One" feature on ingredients
- 9 House floor amendment passes defining tobacco as a drug
- 10 Waxman asks Department of Justice to investigate industry's ingredient reporting
- 15 Durbin and Kessler have lengthy discussion on FDA jurisdiction in Durbin's Appropriation Subcommittee
- 25 Waxman hearing on FDA jurisdiction

### **APRIL**

- TBA Kennedy hearings on Nicotine and GAO study



## ENVIRONMENTAL TOBACCO SMOKE

### FEBRUARY

- 7 Waxman hearing on smoking ban legislation—Administration, EPA, Surgeon General and five former Surgeon Generals endorse
- 20 ETS found in fetal hair per AMA
- 22 McDonald's and National Chain Restaurants endorse ban legislation
- 24 Surgeon General press conference
- 27 United Airlines trial ban on international flights

### MARCH

- 3 State of Maryland announces smoking ban proposal
- 8 Department of Defense announces ban
- 14 Taco Bell announces ban
- 16 Washington State signed de facto ban effective September
- 17 Waxman holds hearing on his smoking ban bill
- 22 Waxman cancels scheduled markup but threatens each subsequent day looking for votes
- 24 Waxman schedules but postpones markup until after recess
- 25 Department of Labor announces proposed rule banning smoking

### APRIL

- TBA Waxman markup of smoking ban bill

## HIGHLIGHTS: 1994 FIRST QUARTER RESULTS

- Reported net earnings of \$1.34 per share were up 59.5% from last year's first quarter, when the company adopted an accounting change that lowered reported net earnings by \$.54 a share.
- Excluding the effect of the 1993 accounting change, net earnings per share were down 2.9% for the quarter, but above the consensus estimate of Wall Street analysts.
- Operating revenues of \$15.5 billion were up 2.0% versus \$15.2 billion in the 1993 first quarter.
- Operating companies income was \$2.6 billion, down 3.6% as a result of lower domestic tobacco pricing. Excluding domestic tobacco, operating income in the first quarter from all other businesses grew 9.1%.
- Income from international operations was \$1.0 billion, up 13.0% over last year, led by a strong performance from the company's international tobacco business.
- Operating income in domestic tobacco was down 24.5%, but at its highest level since the company adopted its pricing strategy in the 1993 second quarter.
- That strategy continued to prove successful; according to the latest Nielsen data, Philip Morris' total share of the U.S. retail cigarette market is 45.6%, up 4.0 points from March 1993; Marlboro retail share is 27.3%, up 5.2 points in the same period.
- During the quarter, the company raised its quarterly dividend 6.2% and resumed share repurchases under an existing authority.

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FOR IMMEDIATE RELEASE

**PHILIP MORRIS REPORTS FIRST QUARTER RESULTS**

**OPERATING REVENUES UP 2.0%**

**OPERATING COMPANIES INCOME DOWN 3.6%**

**INCLUDING CUMULATIVE EFFECT OF 1993 ACCOUNTING CHANGE:**

- REPORTED NET EARNINGS UP 58.9%
- REPORTED NET EARNINGS PER SHARE UP 59.5% TO \$1.34

**EXCLUDING CUMULATIVE EFFECT OF 1993 ACCOUNTING CHANGE:**

- NET EARNINGS DOWN 3.5%
- EARNINGS PER SHARE DOWN 2.9%

NEW YORK, April 19, 1994 -- Philip Morris Companies Inc. (NYSE: MO) today reported net earnings of \$1.2 billion, up 58.9%, and net earnings per share of \$1.34, up 59.5%. The gains include the cumulative effect of an accounting change adopted in last year's first quarter.

Excluding the accounting change, net earnings were down 3.5%, and net earnings per share were down 2.9% from the prior year. Earnings were lower primarily because pricing for the company's premium cigarettes was higher in the first quarter of 1993.

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The accounting change, reflecting the cumulative effect of adopting Statement of Financial Accounting Standards No. 112, primarily to cover severance payments, reduced reported net earnings in the 1993 first quarter by \$477 million, or \$.54 per share.

"All of our businesses are off to a good start in 1994," said Michael A. Miles, chairman of the board and chief executive officer. "Our domestic tobacco business continues to improve, and our other businesses, led by a strong showing from international tobacco, are soundly profitable."

The company posted operating revenues in the first quarter of \$15.5 billion, up 2.0%. Operating companies income declined 3.6% to \$2.6 billion as a result of lower domestic cigarette pricing. Excluding domestic tobacco, operating income in the first quarter from all of the company's other businesses, in total, was up 9.1%, despite adverse currency movements.

Philip Morris continued to see profitable growth from its international operations, as overseas operating income climbed 13.0% to \$1.0 billion, led by a strong performance from the company's international tobacco business.

The decline in net earnings was largely the result of a domestic cigarette pricing strategy Philip Morris adopted in the second quarter of 1993. The strategy, aimed at regaining market share and improving long-term profitability in the company's domestic tobacco business, narrowed the price gap between Philip Morris' premium cigarette brands and competitors' discount products.

The strategy has thus far proven successful, with the company recording impressive share and volume gains for **Marlboro** and its other premium brands since lowering prices.

Philip Morris during the first quarter raised its quarterly dividend by 6.2%, to \$.69 per common share from \$.65 per share, and resumed share repurchases under an existing board authority that was extended through the end of 1994. During the first quarter, the company repurchased 4.7 million common shares at a cost of \$253.2 million.

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## TOBACCO

Operating revenues from the company's worldwide tobacco operations were up 3.9% to \$7.0 billion for the first quarter. Operating income, at \$1.6 billion, was 7.8% lower than a year ago because of lower domestic cigarette pricing. Worldwide cigarette volume increased 12.2%, to 185.8 billion units, from the prior year.

### **Domestic Tobacco**

Operating revenues for domestic tobacco were down 1.8%, to \$2.5 billion, while operating income, at \$769 million, was down 24.5% compared with last year's first quarter, due to lower pricing. Quarterly operating income, however, was at its highest level since the company's new pricing strategy was adopted in last year's second quarter.

Domestic cigarette volume, based on shipments, was 49.7 billion units, up 12.5% over 1993, primarily due to a change in distributor buying patterns. This compared with the industry's 8.4% increase for the quarter. **Marlboro's** shipment volume in the U.S. was up 32.0%, to 29.9 billion units. For the quarter, the company's total shipment share was 43.1%, an increase of 1.5 share points from the year-earlier period, while **Marlboro's** shipment share was up 4.6 points, to 25.9%.

More profitable premium cigarettes also claimed a greater share of the company's total product mix in domestic tobacco. Compared with shipments in the first quarter of 1993, the premium portion of the company's business was up 7.7 points to 79.2%.

At the retail level, according to the latest available A.C. Nielsen data\*, the company's overall share of market was 45.6%, up 4.0 points from March 1993, before the company lowered its premium cigarette prices. The February 1994 Nielsen figures also indicate that retail share for **Marlboro** was 27.3%, an increase of 5.2 share points compared with March 1993.

*\*Nielsen retail data is for February 1994, the latest month for which figures are available. Retail shares have been restated to reflect the company's change to a more representative Nielsen survey of retail outlets.*

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Retail share of Philip Morris' other premium brands, as a group, climbed to 9.1% in February 1994, up from a low of 8.3% in August 1993, when the company lowered their wholesale list prices. The industry's premium segment share, as a whole, has grown more than 5 share points, to 67.3%, since March 1993, with the discount category shrinking by the same amount.

### **International Tobacco**

International tobacco continued its pattern of strong growth in the first quarter. Operating revenues rose 7.3%, to \$4.5 billion, and operating income advanced 17.4%, to \$791 million, despite unfavorable currency movements.

International cigarette unit volume, including U.S. exports, was 135.8 billion units, up 12.3% from a year ago. Gains were recorded in most markets, including Germany, Japan, Central and Eastern Europe, the Middle East, Argentina and Brazil.

In Italy, volume continued to grow, excluding the effect of an inventory replenishment in early 1993 following a union strike. Volume declined in Turkey due to the economic situation in that country.

Marlboro's international volume also grew, increasing 6.1% to 67.8 billion units. International volume also continued to grow for the company's other U.S.-heritage brands, such as Virginia Slims, Parliament, L&M, and Chesterfield.

Philip Morris' market share trends continued to be positive in its major international markets, with record shares achieved in Germany, Italy, France, Finland, the Czech Republic, Japan, Singapore, Argentina and the Dominican Republic.

During the first quarter, the company continued to expand its international tobacco operations by investing in a tobacco processing plant in Malaysia.

### **FOOD**

Operating revenues for the company's worldwide food businesses were down 0.1%, to \$7.4 billion, in the first quarter due primarily to the sale of underperforming businesses in North America, and adverse currency movements. Operating income

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increased 2.2% to \$880 million, benefiting from volume growth, acquisitions and the sale of the unprofitable businesses, partially offset by unfavorable currency movements.

### North American Food

At \$5.2 billion, operating revenues from North American food operations were 1.3% lower than a year ago, primarily reflecting the company's sale last year of its frozen desserts business, including the **Breyers** and **Sealtest** brands, and its **Birds Eye** frozen vegetables business. First-quarter operating income advanced 2.7%, to \$638 million, helped by solid performances in core businesses such as cheese, grocery, cereals and processed meats, as well as by the sale of the underperforming businesses.

In cheese, volume rose 3.5% for the quarter. Contributing to the increase were share gains for **Kraft Singles** and **Kraft Deluxe Slices**. In addition, volume for **Kraft Natural Cheese** was up, benefiting from a list price reduction last year.

In grocery, volume grew for **Kraft** pourable dressings, and volume and share advanced for **Kraft** barbecue sauce. Frozen pizza also had a strong quarter, recording double-digit volume gains on the geographic expansion of **Tombstone** and **Jack's** and overall category growth. Volume for **The Budget Gourmet** frozen entrees benefited from the continued success of its **Special Selections** pasta line introduced last year.

In processed meats, **Oscar Mayer** volume continued to perform strongly, particularly in the hot dog and lunch combinations categories. Two recent product introductions, **Big & Juicy** hot dogs and **Lunchables Fun Pack** lunch combinations, continued to show promising results.

In the beverage business, price reductions on **Kool-Aid** taken in the fourth quarter of 1993 lowered first-quarter income but resulted in market share gains. In addition, **Capri Sun** registered good volume and share gains, which were driven by expanded distribution.

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Volume growth in the cereals business resulted from strengthened marketing behind the Nabisco brands acquired last year. In the bakery business, volume was up due to continued growth in frozen and fresh bagels.

Coffee volume declined due to the escalation of competitive promotional activity in the roast and ground category, but income was up strongly for **Maxwell House**, primarily on productivity gains, and for specialty coffees, due to higher sales.

#### **International Food**

International food operating revenues increased 2.7% to \$2.2 billion, and operating income, at \$242 million, climbed 0.8% from the year-earlier period, despite unfavorable currency movements. Excluding currency, operating income was up 12.5% for the quarter.

Volume was ahead of last year, driven by the strong performance of the company's confectionery business. In Germany, the largest confectionery market in Europe, chocolate tablet volume was up on the continued success of **Milka Big Size**. Volume performance in countlines (filled chocolate bars) was also strong, largely due to the introduction of new products, **Milka Tender** and **Milka Fresh**.

The company continued to build its business in Central and Eastern Europe, achieving significant volume growth in both coffee and confectionery in the first quarter. Expanding its geographic presence in the region, the company acquired a majority stake in S.C. Poiana-Produse Zaharoase S.A. Brasov, Romania's leading chocolate manufacturer.

#### **BEER**

At Miller Brewing Company, operating revenues advanced 5.7%, to \$1.0 billion, and operating income of \$103 million was 10.8% higher than last year's first quarter. Results reflect the company's acquisition of Molson Breweries U.S.A. Inc. in the second quarter of 1993. With the acquisition, Miller gained U.S. import operations and marketing and distribution rights for **Molson**, **Foster's** and other imported brands.

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Including the Molson brands, Miller's shipment volume for the quarter grew 5.1%, to 10.8 million barrels, compared with an estimated 1.1% volume gain for the U.S. malt beverage industry.

The company's new ice-brewed products -- **Lite Ice**, **Icehouse** and **Molson Ice** -- showed strong results in the quarter. **Miller Genuine Draft** volume was up, as were shipments of **Miller High Life** in markets where it was successfully repositioned with near-premium pricing. **Miller Lite** volume was down.

#### FINANCIAL SERVICES AND REAL ESTATE

Financial services and real estate operating income increased 12.5% for the first quarter. Philip Morris Capital Corporation's financial services operating income increased 12.1%, primarily due to gains on sales of marketable securities.

Operating income from real estate operations was up for the quarter, reflecting increased sales in Colorado.

\* \* \* \* \*

Philip Morris Companies Inc. has five principal operating companies: Philip Morris U.S.A., Philip Morris International Inc., Kraft General Foods, Inc., Miller Brewing Company, and Philip Morris Capital Corporation.

Kraft General Foods, Inc. has three operating groups, Kraft General Foods International (including Kraft Jacobs Suchard), Kraft Foodservice Inc., and Kraft General Foods North America, which has four operating units: General Foods USA, Kraft USA, Kraft General Foods Canada and Kraft Food Ingredients Corp.

Philip Morris Capital Corporation is engaged in financial services activities. Its subsidiary, Mission Viejo Company, is engaged principally in land planning, development, and sales in Southern California and Colorado.

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PHILIP MORRIS COMPANIES INC.  
and Subsidiaries

Condensed Statements of Earnings  
(in millions, except per share data)

	For the Quarters Ended March 31,		% Change
	1994	1993	
Operating revenues	\$15,500	\$15,189	2.0 %
Cost of sales	6,798	6,630	2.5 %
Excise taxes on products	<u>2,773</u>	<u>2,624</u>	5.7 %
Gross profit	5,929	5,935	(0.1) %
Marketing, administration and research costs	<u>3,332</u>	<u>3,241</u>	2.8 %
Operating companies income	2,597	2,694	(3.6) %
Amortization of goodwill	141	135	
Unallocated corporate expenses	94	101	
Interest and other debt expense, net	<u>319</u>	<u>382</u>	
Earnings before income taxes and cumulative effect of accounting change	2,043	2,076	(1.6) %
Provision for income taxes	<u>872</u>	<u>862</u>	1.2 %
Earnings before cumulative effect of accounting change	1,171	1,214	(3.5) %
Cumulative effect of change in method of accounting for postemployment benefits (net of income tax benefit of \$297 million) (*)	<u>          </u>	<u>(477)</u>	
Net earnings	<u>\$1,171</u>	<u>\$737</u>	58.9 %
Per share data:			
Earnings before cumulative effect of accounting change	\$1.34	\$1.38	(2.9) %
Cumulative effect of accounting change	<u>          </u>	<u>(.54)</u>	
Net earnings per share	<u>\$1.34</u>	<u>\$ .84</u>	59.5 %
Weighted average number of shares outstanding	877	883	(0.7) %

\* See note on Page 11

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PHILIP MORRIS COMPANIES INC.  
and Subsidiaries

Selected Financial Data by Business Segment  
(in millions)

	For the Quarters Ended March 31,		%
<u>Operating Revenues</u>	<u>1994</u>	<u>1993</u>	<u>Change</u>
Domestic tobacco	\$2,497	\$2,543	(1.8) %
International tobacco	4,457	4,153	7.3 %
International food	<u>2,228</u>	<u>2,169</u>	2.7 %
Total international	6,685	6,322	5.7 %
North American food*	5,191	5,257	(1.3) %
Beer	1,030	974	5.7 %
Financial services & real estate	<u>97</u>	<u>93</u>	4.3 %
Total operating revenues	<u>\$15,500</u>	<u>\$15,189</u>	2.0 %
By Segment: Tobacco	\$6,954	\$6,696	3.9 %
Food	7,419	7,426	(0.1) %
Beer	1,030	974	5.7 %
Financial services & real estate	<u>97</u>	<u>93</u>	4.3 %
	<u>\$15,500</u>	<u>\$15,189</u>	2.0 %
<u>Operating Companies Income</u>			
Domestic tobacco	\$769	\$1,018	(24.5) %
International tobacco	791	674	17.4 %
International food	<u>242</u>	<u>240</u>	0.8 %
Total international	1,033	914	13.0 %
North American food*	638	621	2.7 %
Beer	103	93	10.8 %
Financial services & real estate	<u>54</u>	<u>48</u>	12.5 %
Total operating companies income	<u>\$2,597</u>	<u>\$2,694</u>	(3.6) %
By Segment: Tobacco	\$1,560	\$1,692	(7.8) %
Food	880	861	2.2 %
Beer	103	93	10.8 %
Financial services & real estate	<u>54</u>	<u>48</u>	12.5 %
	<u>\$2,597</u>	<u>\$2,694</u>	(3.6) %

\* Includes KGF North America and Kraft Foodservice Inc.

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PHILIP MORRIS COMPANIES INC.  
and Subsidiaries

Condensed Balance Sheets  
(in millions, except ratios)

	March 31, 1994	December 31, 1993
<b><u>Assets</u></b>		
Cash and cash equivalents	\$209	\$182
All other current assets	13,594	12,626
Property, plant and equipment, net	10,491	10,463
Goodwill and other intangible assets, net	19,838	19,746
Other assets	<u>2,454</u>	<u>2,529</u>
Total consumer products assets	46,586	45,546
Total financial services and real estate assets	<u>4,939</u>	<u>5,659</u>
Total assets	<u>\$51,525</u>	<u>\$51,205</u>
<b><u>Liabilities and Stockholders' Equity</u></b>		
Current liabilities	\$13,206	\$13,539
Long-term debt	14,730	14,358
Other long-term liabilities	<u>7,153</u>	<u>7,014</u>
Total consumer products liabilities	35,089	34,911
Total financial services and real estate liabilities	<u>4,421</u>	<u>4,667</u>
Total liabilities	39,510	39,578
Total stockholders' equity	<u>12,015</u>	<u>11,627</u>
Total liabilities and stockholders' equity	<u>\$51,525</u>	<u>\$51,205</u>
Total consumer products debt	\$16,110	\$16,364
Debt/equity ratio-consumer products	1.34	1.41
Total debt	\$17,646	\$18,156
Total debt/equity ratio	1.47	1.56

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PHILIP MORRIS COMPANIES INC.  
and Subsidiaries

Note to Selected Financial Data

The Company adopted as of January 1, 1993, SFAS No. 112, "Employers' Accounting for Postemployment Benefits." The cumulative effect of this change in method of accounting as of January 1, 1993, was a decrease in 1993 first quarter net earnings and earnings per share of \$477 million and \$.54 respectively.

###

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ACQUISITIONS AND  
DIVESTITURES

2022987734

# **ACQUISITIONS & DIVESTITURES**

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## ACQUISITIONS & DIVESTITURES

### LIST OF ACQUISITIONS

(1/93 - 4/94)

<u>COUNTRY</u>	<u>ACQUISITION</u>	<u>KEY INDUSTRY</u>
<b>BEER</b>		
Canada	Molson	
USA	East Bay (Oakland)	
<b>FOOD</b>		
Argentina	La Monthelado	ice cream
Brazil	Q-Refres-KO S.A.	PSD's/confectionery
Bulgaria	Rupublika	confectionery
Canada	NABOB Foods Ltd.	coffee
Costa Rica	Gallito	confectionery
Czech Republic	Dadak	coffee
France	MaxPax	coffee
Lithuania	Kaunas	confectionery
Poland	Chorzele (75%) DANDY (50%) OLZA	dairy confectionery confectionery
Romania	Poiana	confectionery
Russia	Konfi	confectionery
Sweden	AB Estrella Kooperative-Forbundet's	snack foods coffee
Turkey	Marsa (50%)	margarine, edible oils
United Kingdom	Allied Lyons Terry's	coffee confectionery
USA	RJR Cereal	cereal
<b>TOBACCO</b>		
Kazakhstan	Almaty Tobacco Factory	
Lithuania	Klaipeda Tobacco Co. (55%)	
Russia	Krasnodar	



## **BEER**

1. Does your recent acquisition of and involvement in Molson and FEMSA signal an increased interest in the international beer market?
  - Yes, our 20% share of Molson Breweries, allows us to increase global presence.
  - Our 7.9% share of FEMSA helps us share in the success of one of Mexico's largest consumer goods companies with holdings in brewing (Dos Equis, Carta Blanca, Tecate, and Superior), Coca-Cola bottling, and convenience stores.
  - Miller Genuine Draft introduced in Puerto Rico in September 1992, and has captured more than 30% of the Puerto Rico beer market and is now the #1 brand.
  - MGD was also successfully introduced in the United Kingdom and Ireland.
  - Miller is the first foreign brewer to have its beer brewed in Beijing, through a licensing agreement with Shuang He Sheng Five Star brewery.
  - Our products are available in more than 75 countries, through exporting, exclusive partnerships, and joint ventures.

## **FOOD**

2. What KGFNA acquisitions and divestitures took place during 1993?
  - We acquired:
    - Nabisco's North American ready to eat cereal business
    - Nabob coffee business in Canada
  - We divested in the US:
    - Ice cream and frozen vegetables
3. In 1993 you sold Birds Eye and ice cream. How large were the gains and how were they recorded?
  - Sold Birds Eye to Dean Food for \$135 million and realized a gain of \$8 million on the sale.
  - Sold the ice cream business to Unilever for \$262 million and realized a gain of \$27 million on the sale, net of \$100 million transaction costs.
4. Do you think the climate is becoming more hostile to mergers and acquisitions overseas?
  - No, but as we focus our acquisition activity on our core businesses, we will encounter more legal and public interest scrutiny due to our size and market share.

## **TOBACCO**

5. How is our tobacco business doing in Central/Eastern Europe. Will all these investments pay off?
- PM is profitable in Central and Eastern Europe. Our 20 year presence in this region has given us an exceptional understanding of the consumers, politics, and economics of the region.
  - The Czech & Slovak Republics: Almost \$400 million was invested in Tabak. On an operating basis, Tabak is already profitable. Marlboro is the largest international brand at the premium end of the market. Tabak also has 3 of the top 4 brands on the market (Petra, Start, and Sparta). These have been extended to filter, lights, and other variants. Tabak's market share in the Czech Republics is almost 70%.
  - Hungary: The performance of our affiliate EGRI is ahead of the original acquisition plan and performing profitability.
  - Lithuania: Our acquisition of the Klaipeda State Tobacco Company was completed in June of 1993.
  - St. Petersburg: Two phases; First, a 1 billion unit make-pack facility will be operational by summer 1994. Second, a 10 billion unit greenfield site, still to be determined.
  - Krasnodar: In October 1993, PM acquired a 49% shareholding in the Krasnodar Tobacco Factory. We currently own a majority stake (51%) and our total investment is expected to reach approximately \$60 million over the next several years.

*(Continued)*

- Kazakhstan: Agreement closed at the end of 1993 with the Kazakh authorities of the Almaty Tobacco Factory. We own 98% of shares.
- Exports: We are growing export volume in Bulgaria, Romania, and those parts of the former Yugoslavia where the market is not closed due to UN sanctions.
- Poland: We have good ongoing relations with our licensee ZPT Krakow. We have publicly expressed our interest to invest in Poland, but are waiting for the government to begin its privatization of the tobacco industry.

ADVERTISING AND  
PROMOTION

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# ADVERTISING & PROMOTION

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## **ADVERTISING & PROMOTION**

### **MARKETING PRACTICES**

1. How does the company respond to efforts to reduce product placement in movies and place warnings at the beginning of films?
  - The FTC rejected the petition by anti-alcohol groups to propose rulemaking in this area.
  - Our company responds to requests from movie companies which desire to have authentic products depicted in their movies as a natural part of a scene.
  - What we pay for is to have our brand identified instead of someone else's.
  - We do not authorize product placements for tobacco.

### **MARKETING TO GAY COMMUNITY**

2. What is PM's policy with regard to advertising to the gay community?
  - (N) ▪ Advertising and marketing programs reflect entire spectrum of consumers.
  - Advertising is developed by professionals from different disciplines who are sensitive to the uniqueness and diversity of our consumers.

3. Why didn't KGF advertise on the *Roseanne* episode dealing with homosexuality?
- (N)
- Decision not to purchase advertising time in the March 1 episode was result of the tabloid publicity that had surrounded the episode.
  - KGF is an infrequent advertiser on *Roseanne*.
  - At no time did we purchase national advertising time for this episode. We simply decided to pass it up as a possible buy.

#### ETHNIC MARKETING

4. Will PM contribute to the "rebuilding" of South Central L.A. and the relocation of African-American alcohol beverage businesses throughout the country?
- **Confidential:** CEOs of A-B, Coors, and Miller received requests from Mayor Bradley and the South Central L.A. task force of African- and Asian-Americans to participate in the rebuilding of this area of the city, and the reallotting of licensed beverage stores throughout the country. To our understanding, no brewer responded in the affirmative on this.

#### TELEVISION VIOLENCE

5. Is there a need for Congress to pass legislation that regulates the responsibilities of advertisers in the area of TV violence?
- PM does not believe this type of legislation is warranted.
  - Congress should encourage the broadcast networks and the program producers to address problems in this area.



## **ADVERTISING DEDUCTIBILITY**

6. PM spends millions of dollars on advertising annually. What is our position on legislative proposals that seek to eliminate or reduce the tax deductibility of advertising costs?
- (N)
- We oppose such proposals.
  - All consumer product companies advertise to generate sales and revenue, which is subject to taxation as ordinary income.
  - Advertising expenses should be fully deductible as part of the cost of sales and all advertisers should be treated equally and fairly under the law.

## **BEER**

### **MAGNUM MALT LIQUOR**

7. Is Miller promoting violence with its marketing of Magnum Malt Liquor?
- No. Miller markets appropriately and responsibly to adult beer drinkers.
  - Category represents only 2.8% of our brand portfolio and is supported by point-of-purchase materials only.
  - Availability of malt liquor products is not a contributing factor in crime and violence. Issues facing inner cities are much deeper than advertising, a visible and convenient scapegoat. Critical issues will not be resolved by band-aid solutions like availability and advertising control.

*(Cont'd)*

- Study suggests a reversal of the usual perceived linkage showing that youthful aggressive behavior predicts heavy drinking far more forcefully than drinking predicts aggression. Aggressive people act that way with or without alcohol and do so throughout their lives. This could, in part, account for the high rate of so-called "alcohol-related" crimes. They may have been committed by people who are aggressive for other reasons. (Study by Dr. Dwight Heath, Brown University - reported February 1994)

#### **40-OUNCE CONTAINERS**

8. Is Miller promoting alcohol abuse with its 40-ounce containers that are treated as a single serving in African American and Latino communities?
  - No. Miller markets appropriately and responsibly to adult beer drinkers.
  - 40-ounce bottle is a re-sealable and convenient package. It is driven by consumer preference.
  - Studies found that control of the availability of alcohol beverage does not solve the problem of alcoholism. Rather, it is individual behavior, not the product, that causes the problem.
  - The US seems to have entered a new wave of prohibition, manifested by the belief that alcohol problems can be alleviated by controlling alcohol supply.

*(Cont'd)*

- States that have the strongest cultural biases against alcohol beverages tend to be the same states that experience the most problems. Conversely, states with the most liberal attitudes and laws towards alcohol beverages have the lowest rates of alcohol problems, suggesting that factors, other than availability, determine high alcohol abuse. (R. Thomas Dull, Ph.D., Dept. of Criminology, CA State Univ.; David J. Giacopassi, Ph.D., Dept. of Criminal Justice, Memphis State Univ., April 1986.)
  - To understand drinking behavior and alcohol problems as the dynamic processes they are, we must take into account a multitude of social, cultural, and attitudinal variables, not just availability which has not been scientifically proven to cause abuse. (Study challenges the distribution of consumption prevention model. A.S. Linsky, J.P. Colby, and M.A. Straus, Dept. of Sociology, Univ. of New Hampshire.)
9. Is it a company's responsibility to be sensitive to community issues when designing an advertising strategy?
- We adhere to voluntary industry advertising guidelines.
  - We have established our own high standards for marketing program content.
10. What is your response to critics who want to dictate how a company advertises/markets its products such as those who want to prevent alcohol companies from saturating minority communities with their advertisements?
- We will continue to develop meaningful information campaigns and educational programs, to encourage responsible consumption by adult beer drinkers.

## BIG LAWYER ROUNDUP

11. What is PM's comment regarding the American Bar Association's reaction to Miller Lite's "Big Lawyer Roundup" commercial?
- (U)
- Not intended to misrepresent or offend any particular group or individual. The commercial is no longer being aired.
  - Humorously reinforces that if you can combine great taste and less filling, you can combine anything.
  - We've combined golf and football in *Full Contact Golf*, hockey and a beauty pageant in *Miss Perfect Face-off*, sumo wrestling and high diving in *Sumo High Dive*, luge racing and bowling in *Luge Bowling*, and a dog show and drag racing in *Wiener Dog Winternationals*.
  - Recently added *Cowabunga* featuring cow surfing and *Bassball* combining baseball with fishing.

## TARGET MARKETING

12. How do you define target marketing? Why do consumer products companies use this marketing technique?
- Market segmentation directs relevant messages to key audiences.
  - A marketing tool that has been used by consumer products companies for many years.

## ADVERTISING RESTRICTIONS

13. What about proposals to restrict beer advertising?
- Beer has been part of civilization for 6,000 years, and it's common knowledge that there are risks and consequences from abusive consumption. We have a multi-faceted alcohol awareness and education program to remind consumers of the risks and to promote responsible drinking.
  - Miller markets appropriately and responsibly to adult beer drinkers.
  - Advertising affects brand performance, not consumption or abuse. (Government studies and independent researchers.)
  - Warnings are the least effective way to fight abuse; and education (through schools, family, and law enforcement) is the most effective. (1990 Roper Poll)
14. Are you sensitive to the criticism by urban community leaders that there is too much alcohol advertising in inner cities? Will the company scale back billboard advertising in these communities?
- Billboard advertising represents less than 1% of the total industry's advertising efforts.

## **FOOD — KGFI**

15. How much does KGFI spend in marketing each year, as a percentage of revenues?
- \$750 million, (Advertising \$566, Consumer \$182)
  - 8% of revenues.

## **TOBACCO**

### **PM USA**

16. Why should PM or any other tobacco company be permitted to continue to advertise?
- Tobacco is a legal product, and truthful speech about tobacco is protected by the US Constitution.
  - PM advertises its products to adult consumers to persuade them to try and switch to our brands.
  - Free speech.

## **MINORITY MARKETING**

17. Does PM "target" women and minorities with advertising and promotion activities?
- We communicate with all adult smokers, which include all segments of the US adult population.
18. Why does PM USA place billboards advertising its cigarettes in minority neighborhoods?
- A variety of media, including billboard advertising.
  - Local zoning laws determine where billboards may be placed, and PM complies with all such laws.

## MARKETING TO MINORS

19. Isn't it true that you target your advertising and promotion to minors?

- No.
- We have a stringent company code requiring that all models in our advertising be over 25 and look it.
- We never pay celebrities or sports figures to endorse cigarettes in our advertising.
- More than 25 years ago, we ceased advertising in college publications or in any media whose primary audiences is under 18.
- We encourage state governments to establish 18 as the minimum age for the legal purchase of tobacco products.
- Tobacco Institute's "It's the Law" campaign educates retailers regarding their states' laws governing sales to minors and offers information on keeping cigarettes out of the hands of children.
- We aggressively pursue all cases of logo, trademark and copyright infringement brought to our attention.
- We manufacture branded promotional clothing items in adult sizes only, and we require anyone receiving branded promotional items through the mail to sign a certificate affirming the recipient is a current smoker at least 21 years of age.

20. Recent studies show teenage girls are smoking more. How do you justify targeting teenage girls with your cigarette advertising?
- We do not "target" teenagers of either sex. None of our marketing efforts are directed at people under 21.
  - PM doesn't want kids to smoke.
  - We fully support state laws which make sale of tobacco illegal to those under the age of 18.
  - We work with retailers to make sure that both they and their customers understand and obey the law.
21. Should Congress ban the use of cartoon characters in tobacco ads?
- PM USA does not use cartoon characters in our ads.
  - Such a ban raises serious First Amendment issues.

#### **TAX DEDUCTIBILITY**

22. Many anti-smoking groups argue that tobacco advertising influences children to smoke. In considering this statement, why shouldn't the federal government restrict the tax deductibility of tobacco advertising and thus end the "subsidy" of marketing products to our youth?
- We advertise to maintain customer loyalty.
  - To encourage smokers of other companies' products to switch to our products.
  - By eliminating the tax deductibility, the government would be influencing consumer choice by restricting the flow of truthful information about a lawful product.
  - Such use of the tax code raises serious First Amendment issues.



23. Why shouldn't health warnings be required whenever a tobacco brand or logo appears on non-cigarette products such as hats or T-shirts?
- Existing warning label requirement has been successful.
  - Extension to non-tobacco products is unnecessary.
  - Virtually everyone is aware of the information contained in the warnings on packages and in advertisements.
24. Where is the heaviest pressure for advertising bans or restrictions?
- Local laws restricting cigarette advertising.
  - Outdoor and transportation advertising.

#### **VOLUNTARY CODE ON ADVERTISING**

25. The tobacco industry has a Voluntary Code on Advertising and Promotion. Does PM USA adhere to the Code?
- Yes.
  - A comprehensive internal review and pre-approval process for all tobacco advertising and promotions.
26. If PM USA complies with the Code, why not support federal legislation mandating compliance with the Code?
- PM USA complies with the Code and therefore believes that no legislative action is necessary.

27. PM USA launched the Marlboro Adventure Team promotional campaign, which appears to involve "rigorous physical activity." Do you feel that this campaign complies with the Voluntary Code's prohibition against the use of sports figures or persons smoking while engaging in physical activity?
- In conformance with the Code, the campaign did not use well-known athletes.
  - It did not show anyone smoking as they participate in these activities.
  - The program specifically stated that participants must be 21 years of age or older and be smokers.
28. If tobacco advertising does not seek to attract new customers, why does PM USA spend any money on advertising and promotion?
- To maintain customer loyalty.
  - To encourage smokers of other companies' products to switch to our products.

#### **PM INTERNATIONAL**

29. We hear a lot about the marketing of tobacco products overseas. What "rules" govern our marketing of products in foreign countries?
- PM abides by the laws of the countries in which we are importing our products.
  - Often negotiated trade agreements prescribe the "rules" governing our entry into a market.
30. I understand that there is a threat to Marlboro sponsorship Formula 1 racing. What will happen if we lose this?
- As far as we are concerned, there is no threat to our sponsorship.
  - It is continuing as planned.

## **MARKETING TO MINORS - INTERNATIONAL**

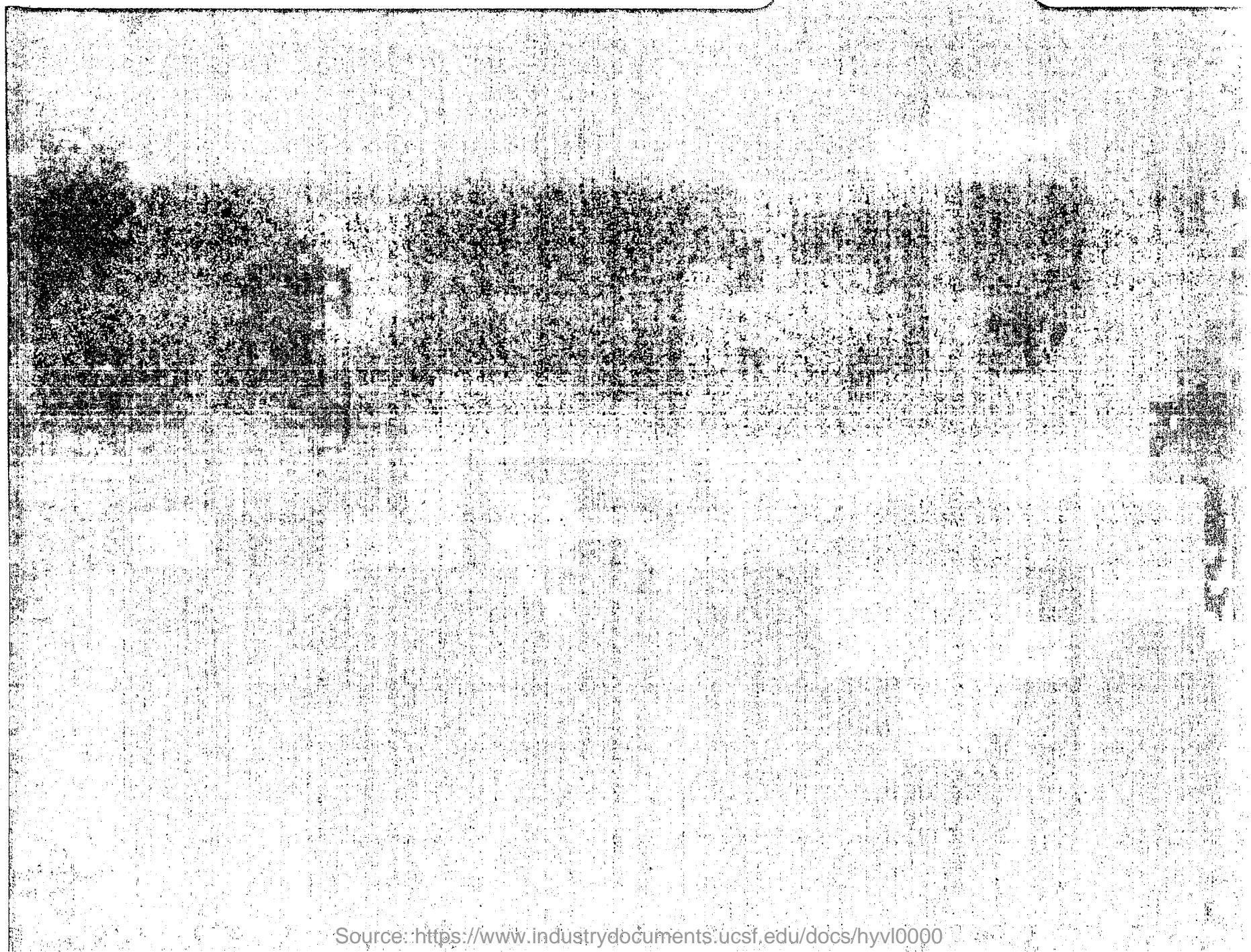
31. Isn't it true that PM is marketing to youth and children in other countries, like China? Why does PM use double standards when marketing to different countries?
- No. We adhere strictly to our own marketing code which prevents such marketing and establishes the means for responsible marketing.
  - With the Chinese monopoly controlling an approximate 99% share, our goal is to have a greater share of this market.
  - There is no "special customization" of our basic marketing strategies to target China.

## **MARKETING RESTRICTIONS**

32. What is the status of marketing restrictions in Europe?
- European-wide tobacco marketing restriction proposal is under review by the EU Commission's legal department who believes such a proposal may exceed the scope of the Commission.
  - National restrictions are still possible but we have had success on a market by market basis, notably Switzerland last year.
33. With the increase in marketing restrictions around the world, what is PM doing to ensure that brand information/communication is passed on to the consumer? (i.e., What is PM doing to maintain its brand value around the world?)
- We market our products in strict compliance with all the laws and regulations established by the governments in the areas of the world in which we do business.

COMMUNICATIONS

2022987756



# COMMUNICATIONS

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## COMMUNICATIONS

1. Why is PM not more aggressive in defending itself from adverse publicity?
  - In some cases, no comments keeps the story from becoming bigger.
  - There are behind-the-scenes activities with various publications and broadcast outlets. We recently met with the publisher and top editorial members of The New York Times, to discuss overall PM operations.
  - PM has a program involving ongoing outreach between reporters and senior executives.
  - Prior to every major announcement PM holds media briefings with leading newspapers and magazines.
  - The communications departments of all PM operating units provide up to date information to all inquiring reporters.
2. What influence does PM have on matters of public policy or social issues?
  - Responsible companies should make themselves heard on public policy issues.
  - We communicate our points of view, but we don't control the results.

## RESTRUCTURING

3. The restructuring announcement on November 24, 1993 seemed to only emphasize layoffs and after tax charge against earnings. How come there wasn't a discussion of increasing profits by taking costs out of the business?
  - The announcement did mention that the restructuring plan:
    - Significantly reduces our cost structure.
    - Improves future growth, profitability, and cash flow.
    - Is designed to generate after-tax annual savings of about \$600 million by 1997.
    - Is expected to provide the company a payback period of around three years.

## STEPHEN WOLF

4. You elected a new director to the Board (Stephen Wolf) but we saw nothing in the newspaper.
  - The announcement of Steve's election to the Board did receive press coverage, but it came on the same day as our restructuring announcement.

## NEW YORK TIMES

5. What did you think of the New York Times magazine cover story on Philip Morris (March 20, 1994)?
  - Story was thorough, balanced, and fair.
  - Our executives spent a great deal of time and effort educating the reporter on our business and company.
  - We felt it important to cooperate with the New York Times, because PM is proud of its business, its employees, and the communities in which we live and work.

6. What about the cartoon cover, featuring "Mr. Butts" and the poignant story of Victor Crawford, the tobacco lobbyist who has cancer?
- The New York Times is free to editorialize as it sees fit.
  - PM was not consulted on the cover art for the article.
  - As for Mr. Crawford's story being included in the article, it was the reporter's choice to do so.
  - Certainly sympathetic Mr. Crawford's situation and wish him well.

#### **COOPERATION WITH PRESS**

7. What other stories has PM participated in this year?
- PM has been the subject of much coverage this year. Major stories are:
    - Wall Street Journal discussed Miller's booming business  
Note: As of 4/15/94, story had not yet run.
    - "48 Hours" did a segment on Miller's tough decision to close the Fulton NY facility.
    - FORBES talked about PMI's business opportunities in Russia .
  - PM is proud of its lines of business, and through our communications offices, works with the press to provide up-to-date information on all inquiries.



8. Should PM cooperate with the press? Apparently we refused to cooperate with "60 Minutes" on the recent 'fire safe cigarette' program, and look what happened.
- PM receives many daily press inquiries.
  - We evaluate each press inquiry on its own merits to determine if it is in our best interests to work with that reporter (it usually is).
  - Our objective is to be as responsive as we reasonably can be vis a vis the request and the media.
  - Re "60 Minutes," PM did send written answers to their questions; an on-camera interview was not possible. "60 Minutes" did not acknowledge or use the written information PM provided.

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# CONTRIBUTIONS

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## CONTRIBUTIONS

1. What is PM's charitable contributions policy?
  - Corporate giving program focuses on education, hunger and nutrition, and the arts.
  - Focus has helped improve our already highly respected and distinguished program.
  - Our giving program is based on our desire to:
    - Advance broad social issues.
    - Further our goals as a private corporation.
  - Board of Directors supports our philanthropic initiatives and support grants that help advance our program.

## PHIL-PAC

2. How much money did the Philip Morris Political Action Committee (PHIL-PAC) raise in 1993?
  - In 1993, raised \$481,213.58. Carried over \$49,419.40 from 1992.
  - In 1993, contributed \$467,362.24 including contributions to 254 candidates.
  - In 1992, contributed \$548,059.33 including contributions to 280 candidates for federal office.
3. How many Democratic and Republican candidates did PHIL-PAC support in 1993?
  - 141 Democrats (\$173,673). 113 Republicans (\$119,449).
  - Remaining funds to federal and state committees, state and local candidates and operating expenses.
4. Does PHIL-PAC support candidates for presidential office?
  - No.

5. What was the cost for administration of PHIL-PAC in 1993?
- \$118,871 for administrative expenses and solicitations.
  - \$116,581 for salaries and fringe benefits. (Charged to Corporate Affairs budget, not to PAC.)
  - Relative to receipts, above sums are low.
  - Average PAC's come in around \$1 in receipts for \$1 of expense.
  - We raise \$1 for every 49 cents spent.
  - These expenses do not come out of personal contributions.
6. Did PHIL-PAC contribute to Senator Jesse Helms in 1993?
- No.

#### **KGF PAC**

7. How much did KGF's PAC contribute to Republicans and Democrats in 1993?
- Total of \$16,750, \$11,750 to Republicans, \$5,000 to Democrats.
  - Contributed \$8,500 to other committees.

#### **PHILANTHROPIC CONTRIBUTIONS**

8. What were our philanthropic contributions in 1993?
- \$55,500,000.
9. What percentage of income does that represent?
- 0.78% of domestic pre-tax income
  - 0.57% of worldwide pre-tax income.

10. Does the company use the contributions program to target Black organizations in an effort 'buy' their support?
- No. In the 1930s, PM was among the first companies to hire African Americans for other than "menial" jobs.
  - In the 1950s, we began the process of integration of the unions in our southern plants.
  - Desegregation of our facilities occurred before the law required it and before other corporations did.
  - Financial support for Black organizations dates back to 1944, when senior PM executives supported the United Negro College Fund.
  - We support the National Urban League. (Contributions to it and other organizations were made at a time when the company was in last place in our industry and could least afford to provide this financial support. Now, as one of the largest American corporations, we are one of the most active.)
11. Why does PM make substantial contributions to the African-American and Hispanic communities?
- PM markets to a diverse universe of consumers.
  - The company supports cultural, educational, social, and health programs that benefit the entire community of our consumers.

12. How much did the company expend in support of AIDS organizations for 1993?
- Contributed \$868,660.
  - Since 1990, the company has committed \$1.0 million each year to support efforts within these AIDS categories:
    - Research
    - Education/Prevention
    - Care
13. Were contributions made in 1993 to organizations with which members of the Board of Directors are affiliated?
- Yes. (See attached list at end of this section.)
14. How much did the company expend on the arts in 1993, exclusive of charitable contributions to arts programs approved by the Corporate Contributions Policy Committee?
- Total Cultural Affairs \$3,133,962  
(includes salaries, fringes  
& project expenses)
  - Total Cultural Advertising \$2,877,349
  - Total Contributions to the Arts \$13,317,788

15. Which organizations were the recipients of the largest charitable contribution grant in 1993?

EDUCATION

**Foundation for Independent Higher Education (FIHE)**     **\$500,000**  
(Teacher Training for Minorities)

HEALTH AND WELFARE

**Food Research and Action Center (FRAC)**     **\$1,050,000/3 years**  
To expand the Campaign to End Childhood Hunger  
(1st payment of \$250,000 paid in 1993)

THE ARTS

**Brooklyn Academy of Music**     **\$1,500,000/3 years**  
To establish the PM Next Wave Forward Fund  
(1st payment of \$500,000 paid in 1993)

CONSERVATION AND ENVIRONMENT

**Federal Focus, Inc.**     **\$200,000**  
To collect and analyze data relating to the assessment of costs/benefits of environmental regulations; make information available to public and government officials; develop recommendations.

CIVIC AND COMMUNITY

**Citizens for a Sound Economy Foundation**     **\$300,000**  
Renewal of general support

MISCELLANEOUS

**ETV Endowment of South Carolina**     **\$180,000**  
"Technopolitics" series



16. Has there been an increase in contributions to organizations involving minorities?

- PM contributes to a wide spectrum of charitable organizations and programs intended to help women, African-Americans, Hispanics and other classes.
- Total 1993 contributions to protected classes were \$11,045,946, slightly higher than the 1992 total of \$11,033,544.
- 1993 contributions to programs intended to help protected classes were:

Physically Challenged	\$356,629
Drug/Alcohol	336,990
Elderly	400,280
Minorities	4,371,335
Women	409,466
Veterans	<u>28,500</u>
Total	\$5,903,200

- 1993 contributions to minority organizations were \$5,142,746.  
(Total contributions to minority organizations were \$11,033,544 in 1992 and \$4,708,328 in 1991, increase in 1992 due to inclusion of KGF data not available in 1991.)

17. How much did the company expend on charitable contributions in other areas in 1993?

(\$ in millions)

The Arts	\$13.6
Civic & Community	5.2
Conservation & Environment	1.2
Education	15.3
Health & Welfare	13.0
Miscellaneous	<u>0.9</u>
Total Grants	\$49.2
Matching Gifts	<u>6.3</u>
Total 1993	\$55.5

#### PROJECT AWARENESS

18. Has PM contributed to "Project Awareness"?

- In 1993, we made a \$125,000 contribution representing the 3rd and final payment of a 3-year \$375,0000 pledge to the Chesterfield County Public Schools.

## DISASTER RELIEF

19. Has the company contributed to disaster relief appeals?

- Yes. The company has an active policy of contributing to disaster relief appeals both domestically and internationally, and budgeted \$700,000 in both 1993 and 1994.
- Company contributed \$170,000 to disaster relief appeals in addition to product donations (i.e. water shipments) in 1993:

American National Red Cross - Jefferson City, MO	\$50,000
American National Red Cross - Sioux Falls, SD	25,000
American National Red Cross - Adams County Chapter Quincy, IL	5,000
American National Red Cross - Loudon County Chapter Lenoir City, TN	5,000
American National Red Cross - Grand Folks, ND	10,000
American National Red Cross - Milwaukee, WI	15,000
City of Petersburg Virginia Tornado Relief Fund Petersburg, VA	25,000
Caritas Relief for Croatia - New York, NY	15,000
Iowa Flood Relief Fund - Des Moines, IA	<u>20,000</u>
<b>TOTAL</b>	<b>\$170,000</b>

20. What has PM done for the 1994 California earthquake victims?
- Miller's Irwindale Brewery delivered bottled water to earthquake shelters.
  - KGF contributed non-perishable foods.

### **United Way**

21. Have there been any more repercussions from the United Way scandal?
- The new president, Elaine Chao, has implemented a number of policy changes that have eliminated several abuses.
  - She has cut the budget by 10%.
22. What percentage of our corporate gift goes to the United Way's member agencies and what percentage goes to administrative costs?
- 84% goes to member agencies.
  - 16% goes to administrative costs.
23. Do our dollars go to all the organizations or does the corporation as a whole designate that the dollars not go to The American Cancer Society, American Lung Association, or any other organization that is anti-PM?
- We currently cannot target our corporate gift to the United Way.
  - We are working to change this procedure.
24. What if an employee designates that his/her donation be given to an organization that is anti-PM?
- We cannot prevent this from happening.
25. What did we give to United Way in 1993?
- \$3,417,121 was contributed in 1993.

26. How long have we supported United Way?
- Since 1956, PM Companies Inc. contributed a total of \$21,905,008 to United Way chapters in our plant communities.
  - GF contributions from 1985-88 not included.

#### **KGF CONTRIBUTIONS**

27. Does KGF have a charitable foundation?
- Contributions are made through the corporate contributions program similar to the rest of PM Companies.
28. How much money did KGF give to charities in 1993?
- KGF contributed \$14,565,000 in cash donations. (This figure is included in the overall \$55,500,000 contributions budget for PM Companies Inc.)
29. Does KGF give away product as well as cash?
- Food products are contributed to non-profit organizations.
  - Second Harvest National Food Bank Network is used as the vehicle for making in-kind donations.
30. Can you give specifics for KGF's contributions in 1993?
- |                      |             |
|----------------------|-------------|
| Hunger and Nutrition | \$7,301,699 |
| Education            | \$5,009,712 |
| The Arts             | \$2,833,393 |
  - KGF also assists non-profit agencies concerned with needs of minorities, women and the handicapped.

## KGFI CONTRIBUTIONS

31. How much does KGFI spend on contributions to charitable organizations?

- Approximately \$2 million spent in 1993 from KGFI's operating budget.
- Supports variety of activities including:
  - Alp Action Program to help reforest Europe's Alps as a result of environmental damage.
  - International Special Arts Program
- On behalf of Kraft Jacobs Suchard, PM Companies made the following contributions:

**Opera House, Bratislava                      \$50,000**

For the 1993-94 season and ticket-subsidy out-reach programs

**Museum of American Folk Art      \$75,000**

Sponsorship pledge for the international tour of the Swiss Folk Art exhibition to Zurich and Neuchatel. This amount will be sent to the Landes Museum in Zurich, the organizers of the Swiss version of the exhibition.